

Message Text

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SUBJ: SECOND HALF KOREAN TRADE PLAN AND NEW CERTIFICATION
PROCEDURES FOR MACHINERY IMPORTS

REF:A. SEOUL 5751 C. SEOUL A-153, JUNE 5, 1974

B. SEOUL 5529 D. SEOUL A-192, JUNE 11, 1973

SUMMARY: SECOND HALF TRADE PLAN AND RECENTLY INTRODUCED
CERTIFICATION PROCEDURES FOR CERTAIN MACHINERY AND EQUIPMENT
IMPORTS INVOLVE MAJOR SHIFT OF ADMINISTRATIVE RESPONSIBILITY
FOR KOREAN FOREIGN TRADE CONTROL SYSTEM FROM MINISTRY OF
COMMERCE AND INDUSTRY (MCI) TO VARIOUS TRADE AND INDUSTRY
ASSOCIATIONS. SOME ASSOCIATIONS REPORTEDLY MORE
RIGOROUS THAN MCI IN ENFORCING IMPORT GUIDELINES AND NEW
CERTIFICATION PROCEDURE COULD POSE DIFFICULTIES DEPENDING
UPON ADMINISTRATION. OTHER CHANGES IN TRADE PLAN RELATIVELY
MINOR. THREE ITEMS OF MODERATE U.S. INTEREST, RESIN
SCRAP AND CERTAIN DYESTUFFS AND NITROCELLULOSE PRODUCTS,
ADDED TO RESTRICTED IMPORT LIST.
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END SUMMARY.

1. RECENT CHANGES IN KOREA TRADE REGULATIONS, INCLUDING
BOTH CHANGES INCORPORATED IN SECOND HALF 1975 TRADE PLAN

AND NEW REQUIREMENT FOR CERTIFICATION FROM KOREAN SOCIETY FOR ADVANCEMENT OF MACHINERY INDUSTRY (KSAMI) FOR VARIOUS MACHINERY AND EQUIPMENT IMPORTS, INVOLVE SHIFT OF RESPONSIBILITY FOR ADMINISTERING SIGNIFICANT ELEMENTS OF FOREIGN TRADE CONTROL SYSTEM FROM MCI TO TRADE AND INDUSTRY ASSOCIATIONS. RATIONAL FOR SHIFT IS TO REDUCE GOVERNMENT'S ROLE AS PART OF CAMPAIGN AGAINST INFLUENCE AND OTHER PAYMENTS TO GOVERNMENT EMPLOYEES.

2. TRADE PLAN CHANGES UNDER NEW TRADE PLAN AND SUPPLEMENTARY REGULATIONS, AUTHORITY TO APPROVE IMPORTS OF RESTRICTED ITEMS UNDER 116 FOUR-DIGIT BTN CATEGORIES HAS BEEN TRANSFERRED TO PERTINENT TRADE OR INDUSTRY ASSOCIATION. AUTHORITY FOR APPROVING RESTRICTED EXPORTS UNDER 31 FOUR-DIGIT BTN CATEGORIES ALSO TRANSFERRED TO SIMILAR GROUPS. AS FAR AS CAN BE DETERMINED TO THIS POINT, REGULATIONS PROVIDING FOR TRANSFER OF THIS AUTHORITY (MOST OF WHICH HAVE TAKEN FORM OF SUPPLEMENTARY ANNOUNCEMENTS WITH MORE LIKELY TO FOLLOW) PROVIDE FOR ESSENTIALLY SAME GUIDELINES FOR SPECIFIC ITEMS AS PREVIOUSLY APPLIED BY MCI. HOWEVER, THERE HAVE BEEN REPORTS THAT AT LEAST SOME ASSOCIATIONS HAVE BEEN MORE RIGOROUS THAN MCI IN THEIR IMPLEMENTATION OF GUIDELINES. PROBLEMS APPEAR TO CENTER AROUND MACHINERY AND EQUIPMENT WHERE KSAMI AND OTHER MACHINERY ASSOCIATIONS REPRESENT DOMESTIC PRODUCERS OF SIMILAR PRODUCTS. EMBASSY IS NOT AWARE OF ANY DIFFICULTIES CAUSED AS YET BY TRANSFER OF RECOMMENDATION AUTHORITY AS FAR AS EXPORT ITEMS ARE CONCERNED.

3. OTHER CHANGES INCORPORATED IN NEW TRADE PLAN ARE RELATIVELY MINOR. ADDITIONAL SUB-ITEMS UNDER ELEVEN FOUR-DIGIT BTN CATEGORIES ALREADY ON RESTRICTED IMPORT LIST HAVE BEEN MOVED FROM AUTOMATIC APPROVAL TO RESTRICTED CATEGORIES.⁷

5#3 3, THREE OF MODERATE INTEREST TO U.S., INCLUDING, WITH 1974 IMPORTS FROM U.S. IN PARENTHESIS: UNCLASSIFIED

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BTN 3902-RESIN SCRAP (\$9 MILLION); BTN-3205-CERTAIN SYNTHETIC DYE STUFFS (\$1.9 MILLION); AND BTN 3903-CERTAIN NITRO-CELLULOSE ITEMS (\$1.8 MILLION). RESTRICTIONS WERE EASED ON ONE ITEM, BTN 3907-EPOXY SHELL FOR SILICON TRANSISTORS, MINIMUM SIZE LIMITATIONS FOR CERTAIN FISHING, CARGO AND PASSENGER VESSEL IMPORTS WERE ALSO LOWERED SLIGHTLY. CHANGES IN EXPORT RESTRICTIONS WERE REPORTED REF A, (ADDITIONAL DETAILS ON TRADE PLAN WILL BE REPORTED BY AIRGRAM.)

4. CERTIFICATION PROCEDURES. REQUIREMENT FOR CERTIFICATION FROM KSAMI HAS BEEN GRADUALLY INTRODUCED OVER PAST SIX MONTHS. MCI FOR SOME YEARS HAS PERIODICALLY ISSUED LIST OF MINERALS AND INDUSTRIAL PRODUCTS PRODUCIBLE

DOMESTICALLY. LIST HAS SERVED AS GUIDELINE FOR REVIEW BY MCI OF IMPORT APPLICATIONS UNDER FOREIGN CAPITAL INDUCEMENT LAW, PUBLIC LOAN LAW, MACHINERY INDUSTRY PROMOTION LAW AND MACHINERY PROCUREMENT PROCEDURES FOR GOVERNMENT AGENCIES OR GOVERNMENT-INVESTED ENTERPRISES. MCI ALSO REVIEWS APPLICATIONS FOR IMPORTS OF PLANT AND FACILITIES FOR FOREIGN EXCHANGE EARNING INDUSTRIES, APPARENTLY USING SAME GUIDELINE LIST. DESCRIPTIONS EMPLOYED IN GUIDELINE LIST ARE GENERALLY BROAD IN NATURE AND INCLUSION OF ITEM ON LIST NOT INTENDED TO AUTOMATICALLY PRECLUDE ITS IMPORT, BUT TO TRIGGER REVIEW PROCEDURE. INTENT OF REVIEW IS DETERMINE WHETHER INTENDED IMPORTS ARE PRODUCIBLE DOMESTICALLY. GUIDELINES SPECIFY THAT SUCH FACTORS AS QUANTITY, QUALITY, PRICE AND TIME OF SUPPLY ARE TO BE TAKEN INTO ACCOUNT IN DECISION. LATEST REVISION OF MCI GUIDELINE LIST ON JULY 5, ADDED 265 ITEMS AND DELETED ONE TO BRING TOTAL LIST TO 877 ITEMS.

5. WHILE THERE HAS NEVER BEEN PUBLIC ANNOUNCEMENT, EMBASSY HAS LEARNED THAT MCI ISSUED INSTRUCTIONS TO BANKS ON JAN. 30, 1975 THAT IMPORT APPLICATIONS FOR MACHINERY AND EQUIPMENT IMPORTS ON MCI GUIDELINE LIST AND IN SITC CATEGORY 7 MUST BE ACCOMPANIED BY CERTIFICATION FROM KSAMI THAT ITEM NOT PRODUCIBLE DOMESTICALLY. INSTRUCTION SPECIFIES THAT REQUIREMENT APPLIES TO GENERAL IMPORTS WITH KFX OR LOAN-FINANCED FUNDS (AS OPPOSED TO IMPORTS AUTHORIZED UNDER SUCH SPECIAL LAWS OR REGULATIONS DESCRIBED PARA 4 UNCLASSIFIED

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ABOVE), INCLUDING AUTOMATIC APPROVAL ITEMS UNDER TRADE PLAN. SECOND INSTRUCTION OF APRIL 25 EXTENDED CERTIFICATION REQUIREMENT TO MACHINERY AND EQUIPMENT ITEMS UNDER SITC 6 AND 8. IN SEPARATE ACTION MAY 5, MCI ANNOUNCED THAT IMPORT APPLICATIONS FOR PLANT AND EQUIPMENT FOR FOREIGN EXCHANGE EARNING INDUSTRIES ALSO REQUIRE SIMILAR KSAMI CERTIFICATION.

6. IMPRECISION IN GUIDELINES FOR CERTIFICATION AND COMPLEX NATURE OF TRADE REGIME MAKE IT DIFFICULT EVALUATE SIGNIFICANCE WITHOUT MORE EXPERIENCE. THERE IS CONSIDERABLE OVERLAP BETWEEN ITEMS ON MASTER MCI GUIDELINE LIST AND ITEMS ALREADY RESTRICTED IN THIS AND PREVIOUS TRADE PLANS. ACCORDING TO KSAMI, ITEMS SUBJECT TO NORMAL SCRUTINY UNDER TRADE PLAN PROCEDURES ARE NOT, IN PRACTICE, SUBMITTED FOR CERTIFICATION PROCEDURE. BOTH MCI AND KSAMI, MOREOVER, MAINTAIN THAT ONLY REAL CHANGE IS THAT KSAMI NOW HAS RESPONSIBILITY IN CERTAIN AREAS RATHER THAN MCI. THIS APPEARS TO BE TRUE AS FAR AS IMPORT OF PLANT AND EQUIPMENT FOR FOREIGN EXCHANGING EARNING INDUSTRIES AND LOAN-FINANCED IMPORTS ARE CONCERNED. HOWEVER, REVIEW/CERTIFICATION FOR GENERAL KFX-FUNDED IMPORTS NOT RESTRICTED BY TRADE PLAN IS NEW AS FAR AS EMBASSY AWARE. ERICSON

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7. MCI AND KSAMI ALSO INSIST THAT REVIEW/CERTIFICATION PROCEDURES DESIGNED ONLY TO ENCOURAGE IMPORTERS TO EXPLORE DOMESTIC SOURCES AND THAT ANY IMPORTERS WHO PRESS CASE ARE ALLOWED TO IMPORT ITEMS NOT RESTRICTED BY TRADE PLAN. KSAMI MAINTAINS THAT 98 PERCENT OF ALL REQUESTS ARE APPROVED FOR CERTIFICATIONS (AS OPPOSED TO REQUESTS FOR APPROVAL OF IMPORTS RESTRICTED UNDER TRADE PLAN). SEVERAL BANKS CHECKED REPORTED THIS CONSISTENT WITH THEIR EXPERIENCE, ALTHOUGH THEY POINTED OUT THAT PROCEDURE ADDS 5 TO 8 DAYS TO PROCESSING TIME.

8. TRADERS HAVE BEEN GERNERALLY RELUCTANT DISCUSS IMPLICATIONS OF NEW CERTIFICATION PROCEDURES IN SPECIFIC CASES ON GROUNDS THEY DO NOT WISH PREJUDICE PENDING APPLICATIONS AND THAT THEY PREFER TO WAIT UNTIL THEY HAVE MORE EXPERIENCE
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WITH NEW SYSTEM. AS IN CASE OF TRANSFER OF APPROVAL AUTHORITY FOR VARIOUS ITEMS UNDER TRADE PLAN TO KSAMI, HOWEVER, TRADERS HAVE EXPRESSED GENERAL CONCERN THAT KSAMI IS LESS

FLEXIBLE THEN MCI.

9. COMMENT. AT MINIMUM THESE PROCEDURAL REQUIREMENTS HAVE CONSIDERABLE POTENTIAL FOR BEING ABUSED AND COULD OPEN DOOR FOR INFORMAL RESTRICTIONS OF IMPORTS NOT OFFICIALLY CONTROLLED UNDER TRADE PLAN. AS PREVIOUSLY NOTED (SEE REF B) SINCE OIL CRISIS ROKG HAS INCREASINGLY EMPHASIZED IMPORT SUBSTITUTION AS COMPLEMENT TO EXPORT PROMOTION. EXTENSIVE TARIFF EXEMPTIONS FOR MACHINERY IMPORTS CURRENTLY MILITATE AGAINST USING TARIFF STRUCTURE TO PROTECT DOMESTIC INDUSTRIES, THOUGH MOST EXEMPTIONS DUE TO BE PHASED OUT BY 1980. FOR THAT REASON AS WELL AS GENERAL KOREAN PREFERENCE FOR DIRECT CONTROLS, ROKG CAN BE EXPECTED TO NORMALLY OPT FOR NON-TARIFF BARRIERS WHERE PROTECTION FOR DOMESTIC INDUSTRIES DESIRED, UNLESS THERE IS STRONG EXTERNAL PRESSURE TO SELECT AN ALTERNATIVE ROUTE. DELEGATION OF DISCRETIONARY AUTHORITY TO INDUSTRY GROUPS, AS DESCRIBED ABOVE, PROVIDES AN ATTRACTIVE INCENTIVE FOR DOMESTIC PRODUCTION, WHATEVER ITS EFFICIENCY, WITHOUT REQUIREING FORMAL USE OF IMPORT BANS OR PROHIBITIVE DUTIES. EXCLUDING SUCH OBVIOUS EXCEPTIONS AS ELECTRONIC COMPONENTS AND AIRCRAFT, OUR INITIAL ANALYSIS INDICATES THAT APPROXIMATELY \$185 MILLION OF 1974 U.S. EXPORTS TO KOREA IN MACHINERY AND EQUIPMENT AREA ALONE FALL INTO CATEGORIES, THEORETICALLY, AT LEAST, SUBJECT TO COVERAGE UNDER THESE PROCEDURES. EMBASSY HAS ALREADY EXPRESSED RESERVATIONS INFORMALLY TO MCI OFFICIALS CONCERNING THESE PROCEDURES AND WILL CONTINUE TO MONITOR SITUATION CLOSELY.

10. BOTH MCI REVIEW PROCEDURES AND KSAMI CERTIFICATION REQUIREMENT APPEAR TO CONSTITUTE NON-TARIFF BARRIERS WHICH MIGHT WARRANT EXAMINATION IN GATT ARTICLE 18 CONSULTATIONS (SEE REF B). NOTE: THESE PROCEDURES HAVE NOT BEEN INCLUDED IN PREVIOUS EMBASSY SUMMARIES OF NON-TARIFF BARRIERS SUCH AS REFS C AND D.
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